

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ALTERNATIVE FUEL FLEX TARIFF)	CASE NO. 89-354
OF WESTERN KENTUCKY GAS COMPANY)	

INTERIM ORDER

On November 9, 1989, Western Kentucky Gas Company ("Western") filed with this Commission an application to amend its Transportation Tariff Rate T-2 to include an Alternative Fuel Responsive Flex Provision. This amendment is intended to offer more economically competitive gas transportation services to Western's fuel switchable industrial customers. In addition to the tariff amendment, Western also proposed methodology for the recovery of revenue shortfalls resulting from the discounted transportation rates and supplied a copy of draft language for affidavits between Western and customers requesting flex rates.

On December 7, 1989, Western filed a motion for interim approval of its tariff, at which time this case was established. Western stated that the delay caused by the Commission conducting its review of this proposal could result in Western losing customers to alternate fuels. In order to avoid this loss of customers and transportation revenues, Western requested interim approval pending the Commission's full review of all areas of concern.

On December 12, 1989, the Commission issued a data request to which Western responded on December 15, 1989.

After consideration of the record in this case and being otherwise sufficiently advised, the Commission finds that:

1. In Western's response of December 15, 1989, it agreed to add the phrase "whichever is less" to the first sentence of paragraph 3 of Sheet 16-A. This addition would ensure that flex volumes do not exceed the available quantity of alternate fuel.

2. Western's flex tariff provisions are reasonable and not inconsistent with flex transportation tariffs allowed for other gas utilities and should be granted interim approval.

3. Western's draft affidavit appears reasonable for use with customers requesting flex transportation service and should be granted interim approval.

4. Western's recovery of revenue shortfalls resulting from discounted transportation rates is not addressed in the tariff language itself. In its cover letter of November 9, 1989, however, Western proposed an apportionment of revenue deficiencies between shareholders and ratepayers in the same manner as approved for its existing special contracts. Such a guaranteed revenue apportionment or sharing is unprecedented for flex transportation tariffs. The approved treatment for revenue shortfalls has been to consider the reasonableness of recovery in general rate proceedings. The issue of Western's proposed recovery methodology should be examined more closely before a final ruling is made. Accordingly, a hearing should be held to give Western the

opportunity to support the reasonableness of its recovery mechanism.

5. In its data response of December 15, 1989, Western stated that it would continue to assign take-or-pay charges to sales and transportation customers on a commodity throughput basis. It is still not clear to the Commission, however, whether Western intends to "flex away" some of this allocation. Western should be prepared to address this issue at the hearing.

6. Western should be prepared at the hearing to discuss in detail the possible variable costs involved in serving each flex transportation customer.

IT IS THEREFORE ORDERED that:

1. Western's proposed flex transportation tariff language, including the addition of "whichever is less" in the first sentence of paragraph 3 of Sheet 16-A, is hereby approved on an interim basis pending the final Order of the Commission in this matter.

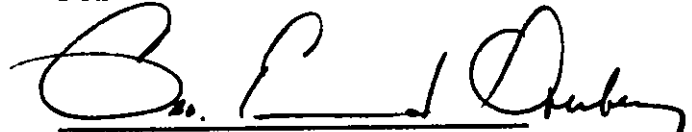
2. Western's proposed affidavit language is hereby approved on an interim basis.

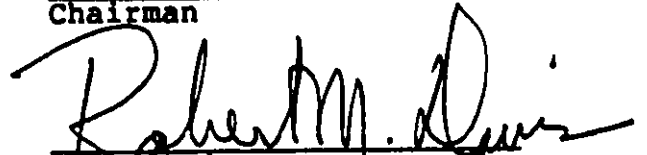
3. A hearing shall be held in the Commission's offices on March 8, 1990, at 10:00 a.m., Eastern Standard Time, in Frankfort, Kentucky.


4. Within 30 days of the date of this Order, Western shall file with this Commission its Transportation Tariff Rate T-2 flex provision as approved on an interim basis herein.

Done at Frankfort, Kentucky, this 21st day of February, 1990.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director